

MEETING DATE: 07/12/2021

ITEM NO: 8

DATE: July 8, 2021

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Review Police Costs Relative to Total Expenditures and Revenues

RECOMMENDATION:

Review Police costs relative to total expenditures and revenues.

DISCUSSION:

Per the Finance Commission Chair's request, Attachment 1 contains historic Police Department expense data relative to total Town expenses and revenues.

Attachment:

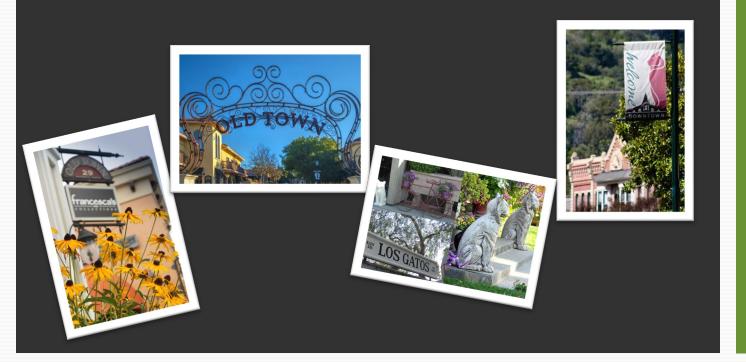
1. PD Expense Slides

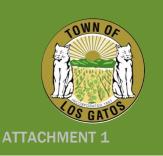
PREPARED BY: Steve Conway

Finance Director

Reviewed by: Town Manager, Assistant Town Manager, Town Attorney, and Finance Director

Town of Los Gatos Police Costs Compared to Overall Town Costs





- Data source:
 Comprehensive Annual
 Financial Reports for
 FY09/10 through FY19/20
- Comparison based on the Statement of Activities (SOA) and Public Safety Expenses
- SOA Prepared on Full Accrual Basis

Fiscal Years (FY)	Public Safety Expenses	Total Expenses	Percentage of Public Safety Expenses of Total Expenses				
FY 2009/10	\$ 13,266,849	\$ 33,167,689	40.00%				
FY 2010/11	\$ 13,495,885	\$ 33,111,306	40.76%				
FY 2011/12	\$ 14,124,798	\$ 34,752,448	40.64%				
FY 2012/13	\$ 13,731,754	\$ 36,019,116	38.12%				
FY 2013/14	\$ 14,119,786	\$ 36,273,544	38.93%				
FY 2014/15	\$ 12,644,221	\$ 34,271,936	36.89%				
FY 2015/16	\$ 12,825,688	\$ 34,417,918	37.26%				
FY 2016/17	\$ 14,587,597	\$ 39,290,901	37.13%				
FY 2017/18	\$ 15,545,521	\$ 43,039,932	36.12%				
FY 2018/19	\$ 17,725,475	\$ 44,236,037	40.07%				
FY 2019/20	\$ 20,446,188	\$ 48,007,443	42.59%				

Overall 11-Year Average 38.96%

POLICE EXPENSES

Fiscal Years (FY)	Public Safety Expenses		Total Program and vernment Revenues Revenues	Percentage of Public Safety Expenses of Total Program and Government Revenues			
FY 2009/10	\$	13,266,849	\$ 42,884,530	30.94%			
FY 2010/11	\$	13,495,885	\$ 39,722,496	33.98%			
FY 2011/12	\$	14,124,798	\$ 40,263,015	35.08%			
FY 2012/13	\$	13,731,754	\$ 39,834,671	34.47%			
FY 2013/14	\$	14,119,786	\$ 40,414,689	34.94%			
FY 2014/15	\$	12,644,221	\$ 43,139,836	29.31%			
FY 2015/16	\$	12,825,688	\$ 40,401,294	31.75%			
FY 2016/17	\$	14,587,597	\$ 41,571,138	35.09%			
FY 2017/18	\$	15,545,521	\$ 43,775,789	35.51%			
FY 2018/19	\$	17,725,475	\$ 48,586,229	36.48%			
FY 2019/20	\$	20,446,188	\$ 48,039,005	42.56%			

Overall 11-Year Average 34.55%

POLICE EXPENSES

MEETING DATE: 07/12/2021

ITEM NO: 8

DESK ITEM

DATE: July 12, 2021

TO: Finance Commission

FROM: Laurel Prevetti, Town Manager

SUBJECT: Review Police Costs Relative to Total Expenditures and Revenues

REMARKS:

Attachment 2 contains public comment received after the July 8, 2021 distribution of the staff report.

Attachment received with staff report:

1. PD Expense Slides

Attachment received with this Desk Item:

2. Public Comment

PREPARED BY: Arn Andrews

Assistant Town Manager

Reviewed by: Town Manager

From: Phil Koen			
Sent: Saturday, July 10), 2021 8:17 AM		
To: Ron Dickel	Kyle Park		
stacey.dell	loreen	; ricktinsley	Rob Rennie
<rrennie@losgatosca< td=""><td>.gov>; Matthew Hudes <mhud< td=""><td>es@losgatosca.gov></td><td></td></mhud<></td></rrennie@losgatosca<>	.gov>; Matthew Hudes <mhud< td=""><td>es@losgatosca.gov></td><td></td></mhud<>	es@losgatosca.gov>	
Cc: Laurel Prevetti <lp< td=""><td>revetti@losgatosca.gov>; Arn A</td><td>Andrews <aandrews@lose< td=""><td>gatosca.gov>; Robert</td></aandrews@lose<></td></lp<>	revetti@losgatosca.gov>; Arn A	Andrews <aandrews@lose< td=""><td>gatosca.gov>; Robert</td></aandrews@lose<>	gatosca.gov>; Robert
Schultz < RSchultz@los	gatosca.gov>; jvannada	Lee Fagot	; Catherine
Somers	; Jim Fole	ΣΥ	
Subject: Agenda Item	8 - Analysis of Police Expense		<u> </u>

Members of the Finance Commission,

I have attached a more relevant analysis of the Town's historical expenditures for public safety which shows how the Town has funded public safety expenditures over the past 11 years. These numbers were taken from the Statement of Activities.

The Statement of Activities (see FY 2020 attached) reports gross functional/program expenditures, all revenues which were earned by the function/program and the resulting net functional/program expenditures. The attached spreadsheet shows public safety data for the period from FY 2010 through FY 2020. Since FY 2010, gross public safety expenditures have increased 54.1% or at a CAGR of 4.4%. The cost of public safety is the fastest growing expense for the Town.

The Town has funded these expenditures through a combination of functional/program revenues and general tax revenue. The functional/program revenues are comprised of various funding sources such as payments from Monte Sereno for police services provided to that city, vehicle code fines, federal and state grant money, and donations. Historically these functional sources of funds have contributed approximately \$2.2m to \$3.5m toward the total cost of public safety. It is important to understand that program revenues are generated by the associated functions and are generally restricted to those programs/functions and in some instances (such as grants) are non-recurring revenue sources.

Although some governmental functions are self-supporting (such as sanitation) by raising enough revenue on their own to cover their costs, most of the Town's functions (Public Safety, Parks and Public Works, Community Development, Library Services) are not self-supporting and depend upon general tax revenues to fund the shortfall. This is the critical issue to understand – namely, how much of the general tax revenue base is the cost of public safety consuming and what has been the trend over the past 11 years.

The Staff analysis does not answer this question. In fact, the analysis is flawed since public safety expenditures are compared to ALL revenue including program revenues that do not fund public safety (such as VTA grants, or construction permits).

If we deduct the public safety functional revenue from the gross expenditures for public safety, the resulting net expenditures for public safety must be funded from general tax revenues. The spreadsheet also shows the total revenues received by the Town from General Tax Revenue. The principal tax revenues for the Town are compromised of property taxes, sales taxes, franchise taxes and other miscellaneous taxes.

Since FY 2010, public safety expenditures have consumed a greater portion of the Town's general tax revenue, increasing from 37% in FY 2010 to 59% in FY 2020. This increasing trend is driven by net public safety expenditures growing at a 5% CAGR while total general tax revenues have grown at a .2% CAGR. The result is public safety expenditures are consuming more and more of the Town's general tax revenues which is "crowding out" the ability for the Town to fund critical services the Town must also provide, such as senior services, parks and recreation, street repair and cleaning, etc.

This should not be a surprise to anyone since the Town's auditor clearly called this out in his most recent presentation to the Town Council of the FY 2020 results. In that presentation the auditor presented a slide (which is attached) which shows that <u>in FY 2020 the Town's total net cost of service exceeded the Town's total tax revenue</u>. And the main driver of this, was the growth in public safety expenditures. This should be a wake-up call for anyone concerned about long-term fiscal stability because the Town cannot continuously operate in a fiscal condition where the total net cost of services provided exceeds general tax revenues collected.

Please let me know if you have any questions.

Phil Koen

	Gross Public Safety Expenditures	Less: Functional Revenues	Net Public Safety Expenditures	Total Tax Revenue	Net Public Safety Exp/ Total Tax Rev	
FY 2010	13,266,849	2,192,354	11,074,495	29,796,9	20 37.2%	
FY 2011	13,495,885	2,181,591	11,314,294	31,103,6	36.4%	
FY 2012	14,124,798	2,354,377	11,770,421	27,676,7	19 42.5%	
FY 2013	13,731,754	2,541,990	11,189,764	22,877,63	48.9%	
FY 2014	14,119,786	3,249,240	10,870,546	23,460,2	38 46.3%	
FY 2015	12,644,221	3,554,004	9,090,217	25,412,6	35.8%	
FY 2016	12,825,688	3,376,723	9,448,965	25,521,03	22 37.0%	
FY 2017	14,587,597	2,914,017	11,673,580	28,399,6	21 41.1%	
FY 2018	15,545,521	2,784,089	12,761,432	28,567,3	13 44.7%	
FY 2019	17,725,475	2,572,532	15,152,943	30,682,1	49.4%	
FY 2020	20,446,188	2,510,352	17,935,836	30,269,4	59.3%	
Average Analysis						
FY 2010 - FY 2015	13,563,882	2,678,926	10,884,956	26,721,30	06 41.2%	
FY 2016 - FY 2020	16,226,094	2,831,543	13,394,551	28,687,9	06 46.3%	

TOWN OF LOS GATOS STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Functions/Programs		Expenses	Program Revenues Operating Charges for Grants and Services Contributions					Capital Grants and Contributions		Net (Expense) Revenues and Changes in Net Position Governmental Activities	
Governmental Activities:	_	· ·									
General government	\$	7,405,368	\$	1,470,324	\$	12,290	\$	8,258	\$	(5,914,496)	
Public safety		20,446,188		1,549,207		952,045		9,100		(17,935,836)	
Parks and public works		11,803,005		3,674,222		2,824,638		832,755		(4,471,390)	
Community development		5,001,958		3,351,753		15,864		-		(1,634,341)	
Library services		3,347,523		11,522		49,351		-		(3,286,650)	
Sanitation		3,041		231,323						228,282	
Total Governmental Activities	\$	48,007,083	\$	10,288,351	\$	3,854,188	\$	850,113		(33,014,431)	
		eral revenues:									
		Property taxes								18,330,426	
		Sales taxes								7,531,425	
		Franchise taxes	5							2,495,792	
		Other taxes								1,911,774	
		lotor vehicle in								24,526	
		vestment earni	ngs							2,428,470	
	IV	liscellaneous								323,940	
	Total general revenues									33,046,353	
	Change in Net Position								31,922		
	Net Position - Beginning								114,819,109		
	Net	Position - Endir	ıg						\$	114,851,031	

Government-Wide Financial Statements

Net Cost of Service to Tax Revenue

